THE PEI ECONOMY
1999 PROGRESS REPORT

Introduction

This report provides a commentary on the Prince Edward Island economy in 1999, based on data for the first nine months of the year. Reference to the national economic situation is also made. Trends in the core indicators of the Island economy include the Gross Domestic Product, population, employment and unemployment, consumer prices, consumer spending, tourism, manufacturing, construction and the primary sector. An electronic copy of this document is available from the provincial government web site http://www.gov.pe.ca/

Canadian Economy

The Canadian economy continues to grow vigorously in 1999 following a 3.1 per cent expansion in GDP in 1998, as can be seen in Figure 1. Growth is aided by a healthy U.S. economy and recovering markets in Asia, South America and Russia. Fears of a serious global economic downturn in 1999 resulting from the financial and economic turmoil in Asia in late 1998 were clearly misplaced, though their effects continue to be felt. Canadian real GDP growth of 3.4 per cent during the first six months of 1999 is down 0.2 percentage points compared with the same period of 1998. Figure 1 shows seasonally adjusted growth rates for Canadian Gross Domestic Product at 1992 market prices since the third quarter of 1996.

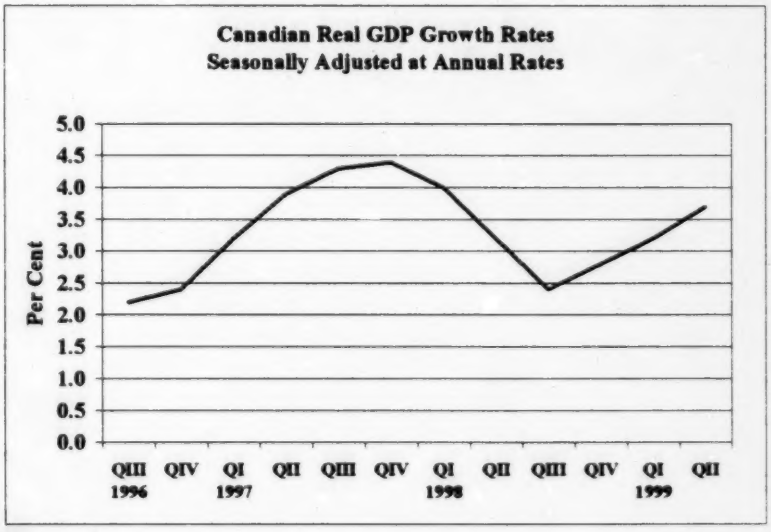

Figure 1

The Canadian dollar's weak performance compared to the U.S. dollar during 1998 improved somewhat during the first half of 1999. The exchange rate bottomed out at 64 cents American in October 1998, increasing to 68 cents at the end of September 1999, though it has slipped to below 67 cents U.S. more recently.

A leading cause of growth in the Canadian economy has been increased exports. Gordon Thiessen, Governor of the Bank of Canada, recently stated the stimulus from spending by Canadian households and business has also been growing. The value of Canadian exports increased by 5.3 per cent during 1999, partially aided by the relatively low Canadian dollar and improving commodity prices. The value of motor vehicle exports for the first seven months of 1999 grew by 9.5 per cent compared with the same period of 1998. The recent round of wage negotiations between the big three auto makers and the Canadian Auto Worker's union concluded without labour disruptions at the Canadian auto plants.

The seasonally adjusted unemployment rate for Canada continued a downward trend to average 7.8 per cent for the first eight months of 1999. This compares to a national unemployment rate of 8.3 per cent in 1998. Growth in employment of 2.8 per cent for the first eight months of 1999 has continued to outpace labour force growth of 2.1 per cent.

The pace of inflation has accelerated during 1999. Figure 2 shows Canadian Consumer Price Index trending upward during 1999 at about 2.5 per cent. Prior to 1999 the Consumer Price Index was growing at about 0.7 per cent.

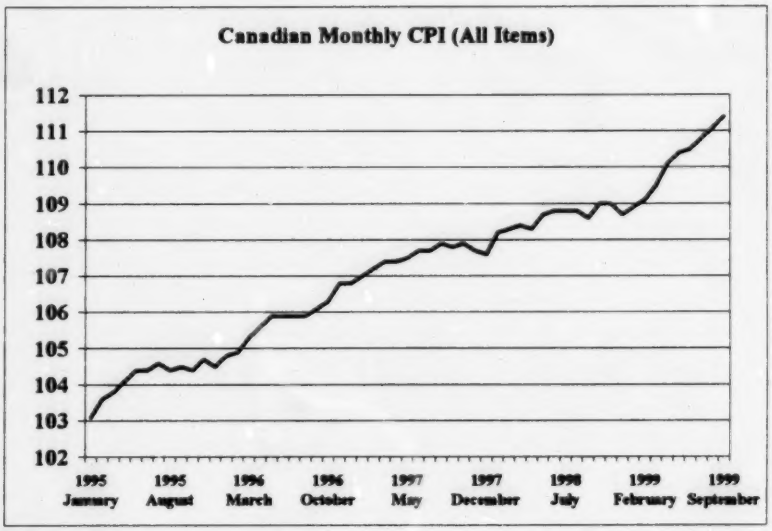

Figure 2

The national growth in total wages and salaries paid during the first seven months of 1999 was 3.1 per cent, compared with the same period of 1998. Year to date growth of total wages and salaries is down 0.5 per cent from the five year average of 3.6 per cent. Retail sales have grown strongly at 4.5 per cent in the first seven months of 1999. It has been particularly strong in Ontario with growth of 6.6 per cent and 5.7 per cent in

Prince Edward Island

Prince Edward Island's economy shows continued improvement through the first three quarters of 1999. Year to date statistics for the various sectors show the economy expanding at somewhat less than the national average. Economic highlights include, increased farm cash receipts, retail sales, manufacturing, construction and exports. Rising population figures and housing starts are indications of improvement in the provincial economy. The Consumer Price Index has begun to trend upward in view of recent petroleum price increases. To date Prince Edward Island has the second lowest rate of inflation and the second lowest retail gasoline and fuel oil prices in the nation.

Private Sector Outlook

Shown in Table 1 are the Fall private sector forecasts for Gross Domestic Product growth on Prince Edward Island compare with Summer forecasts for 1999. The current private sector Gross Domestic Product forecasts indicate the Island economy will grow between 1.7 and 2.6 per cent in 1999. The private sector forecasts in the Fall indicate an improved outlook for the Island economy, compared to the earlier outlooks.

Table 1. Private Sector Consensus of Real Gross Domestic Product Growth for P.E.I.

	Summer 1999	Fall 1999
Royal Bank	1.8	2.0
Canadian Imperial Bank of Canada.	1.7	1.7
Bank of Montreal	1.8	2.6
Bank of Nova Scotia	1.8	1.8
Toronto Dominion	2.5	2.6
Conference Board of Canada	2.1	2.1
Average	2.0	2.1

Population

The latest population estimates from Statistics Canada indicate 137,800 people resided on Prince Edward Island on July 1st 1999. Population estimates were revised for 1998 and 1997 by Statistics Canada to adjust for *inter-provincial migration, births* and *deaths.* The revised population figures, shown in Figure 3, now show an increase of 200 people between June 1997 and June 1998 where the previous population numbers showed a decline of 400 people in 1998. The upward trend in P.E.I.'s population is a positive indicator for the health of the Island economy.

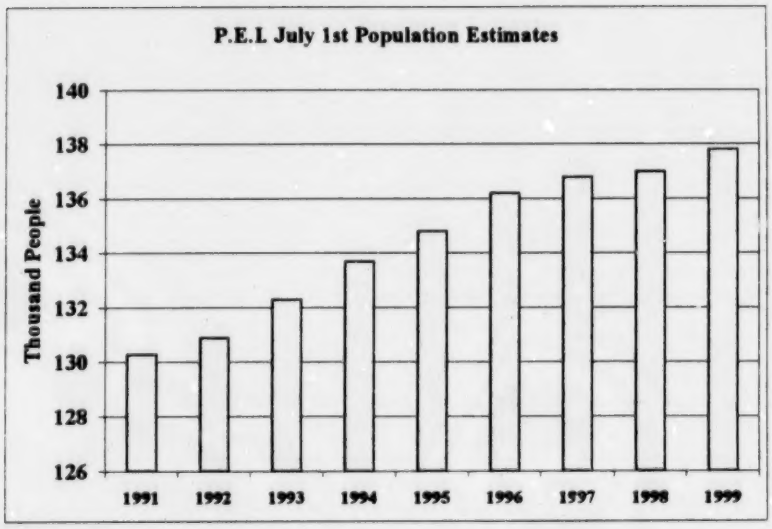

Figure 3

Labour Market

According to Statistics Canada's Labour Force Survey, P.E.I.'s seasonally adjusted employment for the first ten months of 1999 averaged 61,500 people. This is 0.9 per cent higher than the first ten month average of 60,900 people during 1998. Figure 4 shows the trend in seasonally adjusted monthly employment figures since 1995.

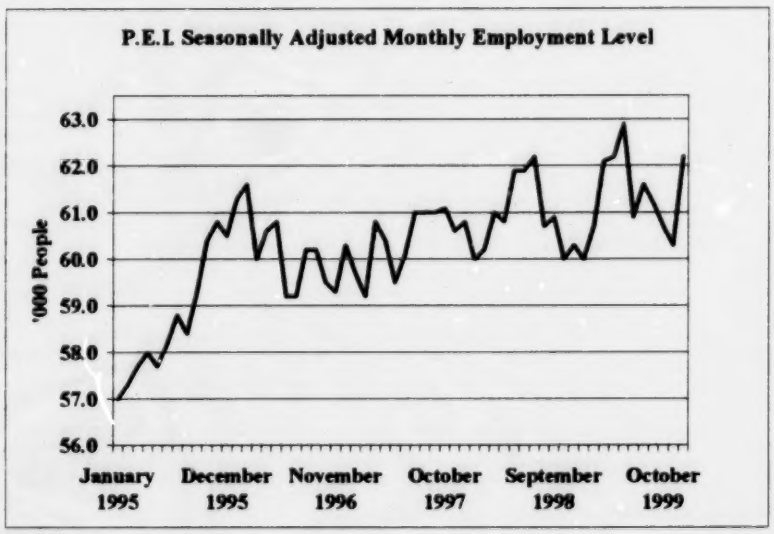

Figure 4

In the first ten months of 1999 the growth in the labour force was approximately 1,300 people, totalling 71,900 people, causing the unemployment rate to average 14.5 per cent. The number of unemployed people on P.E.I. during the first ten months of 1999 was 10,400 people, 800 people higher than during the first ten months of 1998. Prince Edward Island's Participation Rate for October ranked fifth of the provinces at 66.3 per cent, just behind Ontario. Alberta leads the country with the highest Participation Rate at 71.6 per cent. This compares with a national Participation Rate of 65.5 per cent.

The increased number of unemployed on P.E.I. did not translate into increased reliance on the Employment Insurance program. The number of beneficiaries for the first seven months averaged just under 12,300 per month, down 4.1 per cent from the same period last year. The value of Employment Insurance benefits paid to Island residents also declined during the first seven months of 1999. Employment Insurance benefits paid to Island residents for the first seven months of 1999 totalled $107 million, down 2.3 per cent. The value of Regular E.I. benefits, accounting for approximately 72 per cent of all E.I. benefits, fell by 5.8 per cent compared with the same period last year. The reduction in Employment Insurance benefits paid to Islanders is due to program reductions.

Total labour income earned by Islanders, continued to grow through 1999. From January to July total labour income was $928.5 million, compared with $886.2 million during the same period of 1998, an increase of 4.8 per cent. While the Labour Force Survey of households shows limited employment growth on P.E.I., Statistics Canada's Employment, Earnings and Hours survey of business payrolls shows employment growth of 4.7 per cent during the first seven months of 1999. Employment growth of 4.7 per cent is consistent with growth of 5.1 per cent in wages and salaries and average weekly earning growing at 0.2 per cent. Wages and salaries growth of 5.1 per cent coupled with 0.2 per cent growth in average weekly earnings provides evidence of stronger employment growth during 1999. As can be seen in Figure 5, Island incomes have increased substantially since 1998 following the

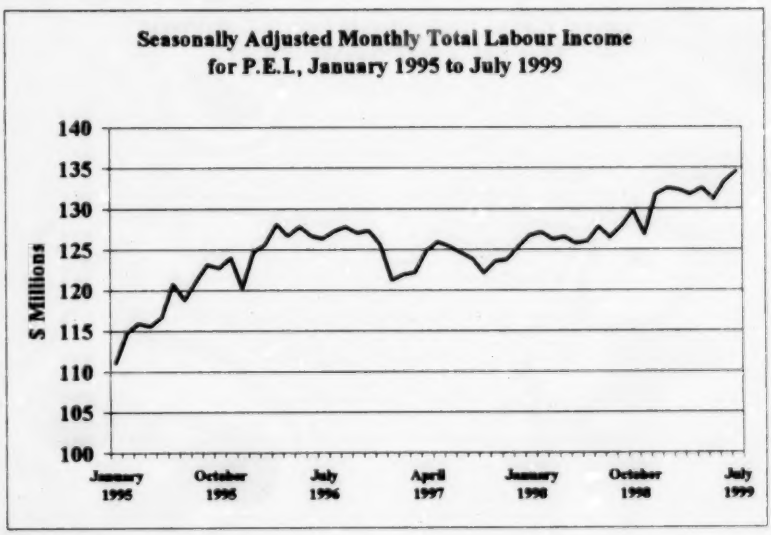

Figure 5

completion of the Confederation Bridge. Growth in total labour income and a low inflation rate has resulted in a substantial increase in real income growth on P.E.I..

Consumer Price Index

As can be seen in Figure 6, the Consumer Price Index (CPI) for P.E.I. has increased during the first eight months 1999 after a period of decline through 1998. The CPI for all items fell 0.5 per cent in 1998 due in large part to a sharp reduction in energy prices. Current energy prices on P.E.I. began to increase during June putting upward pressure on the CPI. The average CPI increase in 1999 to date is 0.5 per cent, and this is likely to be 1.0 per cent by year end.

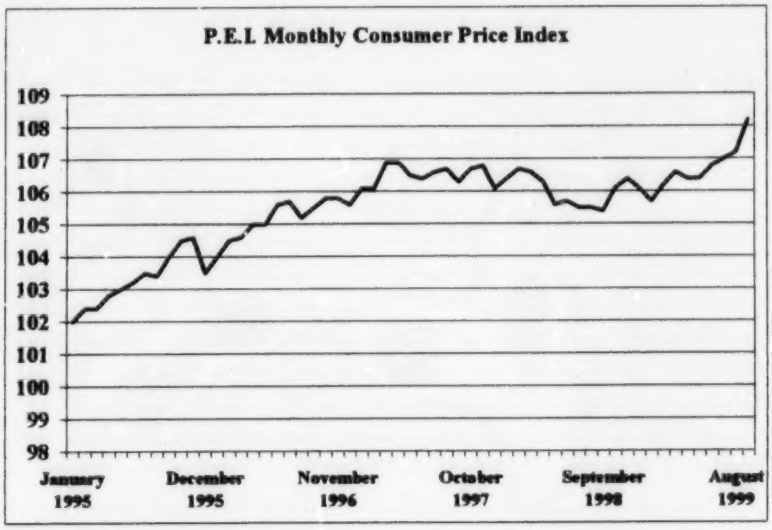

Figure 6

Consumer Spending

P.E.I. has led the country in retail sales growth during 1999 with January to July seasonally adjusted sales totalling $657.7 million, an increase of 6.7 per cent over the same period the previous year. Ontario, Newfoundland and Quebec also had strong retail sales growth January to July. Growth in retail sales accelerated during 1999 from the longer term trend since 1995, as shown in Figure 7.

Figure 7

Increased retail sales during the first seven months of 1999 reflect consumer confidence of Islanders, and increased tourism. Retail spending in June was up by 11.9 per cent and July was up by 10.0 per cent over the figures in 1998.

The retail market on P.E.I. has undergone significant changes during the last year with new and expanded store openings overshadowing several retain outlet closures. The gap in retailing left by the closure of Eaton's and K-Mart in Charlottetown, and Zeller's and the I.G.A. in Summerside was rapidly filled by several new store openings and retail expansions throughout the Island.

The evolution of the retail market on P.E.I. has increased selection and price competition, allowing more Islanders to buy locally. With the provincial sales tax exemption for foot wear and clothing, it is expected that this sector will remain buoyant through 1999.

New motor vehicle sales have improved during the first eight months of 1999 after lackluster sales in 1998 and early 1999. The value of new vehicle sales for the first eight months of 1999 totalled $83.7 million, compared with $78.9 million during the same period of 1998, an increase of 5.9 per cent. The growth in the value of commercial vehicles has outpaced growth in passenger car sales. Commercial vehicle sales increased 7.8 per cent in value while passenger car sales grew by 3.9 per cent.

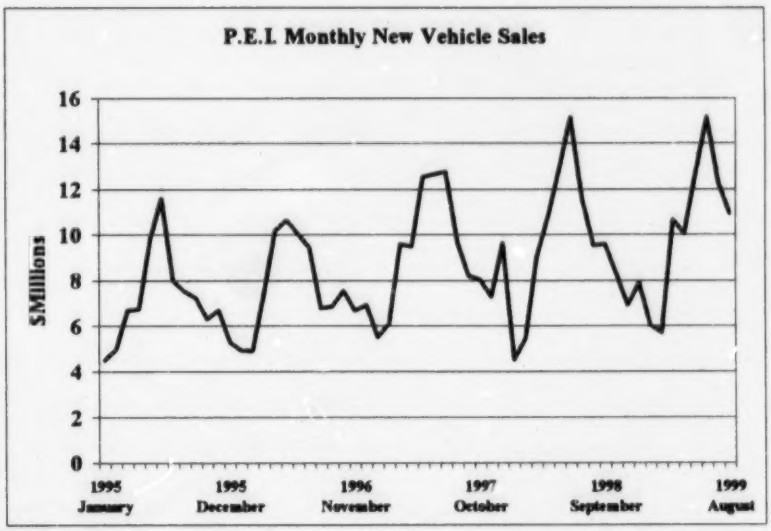

Figure 8

The increase in the value of new motor vehicle sales compares with a 1.4 per cent increase in the number of commercial vehicle units sold and 0.2 per cent growth in the units of passenger vehicles sold in the first eight months of 1999.

Early information from the tourism sector indicates that the exceptionally good weather in 1999 translated into improved tourism revenues. Preliminary results from the Tourism Exit Survey indicate that tourism revenues exceeded $300 million in 1999, compared to $274 million during 1998. The preliminary tourism results show that tourists generally stayed longer taking in cultural events, festivals, and playing the Island golf courses.

Primary Sector

Farm cash receipts for the first two quarters of 1999 totalled $192.2 million, compared with $170.6 million during the first two quarters of 1998, for an increase of 12.6 per cent. Quarterly farm cash receipts from the first quarter of 1995 to the second quarter 1999 are shown in Figure 9. The continued strength of the potato market through the first half of 1999 boosted potato receipts by 15.0 per cent. Livestock receipts for the first two quarters of 1999 slipped 1.5 per cent, totalling $55.8 million compared with $56.6 million for the same period in 1998. The 3.2 per cent growth in cattle receipts was offset by the 9.1 per cent decline in hog receipts. Agricultural support payments increased over 1998 as a result of the problems in the hog industry during the fall of 1998 and early 1999, along with storage problems for potato producers.

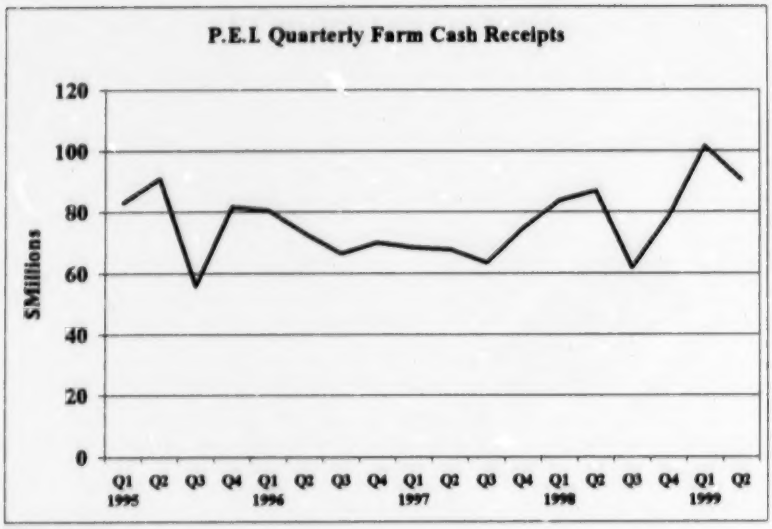

Figure 9

The lack of precipitation during the spring and early summer initially created concern for the potato crop but this was alleviated with ample precipitation later in the summer. Preliminary estimates of the potato harvest for 1999 show good tuber size with early varieties having a slight decrease in yields. Fall potato prices show an improvement over last year with the P.E.I. Potato Board's minimum price set at a $1.10 for a 10 lb bag of Island spuds. Potato acreage on P.E.I. increased by less than one per cent to reach 113,000 acres in 1999.

The demand for wood products has fuelled the forestry sector on P.E.I. which continues to benefit from strong export markets. The value of wood exports to the United States are up 39.1 per cent for January to July over the same period during 1998.

Lobster landings for 1999 were down approximately 5.0 per cent by volume compared to 1998 due to reduced landings during the spring season. However, the Provincial Department of Fisheries and Tourism estimates the value of the lobster fishery to reach $84.8 million, an increase of $4.2 million over 1998 due to improved lobster prices. Shellfish production is doing well, as blue mussel

production is estimated to grow by 12 per cent, to exceed 30 million lbs and the oyster harvest is forecast to reach 5.0 million lbs, up 13 per cent from 1998. Recovering ground fish stocks allowed for a limited commercial cod fishery this year, after several years of a ground fishing moratorium, and landings were recorded at approximately 835 metric tonnes.

The bluefin tuna fishery was again successful in 1999. However, P.E.I. landings were reduced slightly. Island fishers landed 561 tuna with a weight of 180 metric tonnes, this represents 30.4% of the Canadian quota. Prices this year were reduced for a period of time due to an over supply in the Japanese marketplace.

The value of international exports from January to July 1999 totalled $291.4 million, compared with $258.6 million in 1998, for an increase of 12.7 per cent. French fries, the staple of Island exports, totalled $80.3 million for an increase of 12.4 per cent over the same period during 1998. International exports of frozen and prepared lobsters grew significantly during the first seven months of 1999. Increased international demand for Atlantic lobsters and the ability to supply year round contracts from one company has bolstered the value of frozen and prepared lobster exports by $28.7 million, to total $59 million from January to July 1999. Wood products, other machinery and chemical products also show export growth. Overall international export growth was tempered by declines in pharmaceutical, medicines and the aerospace industry.

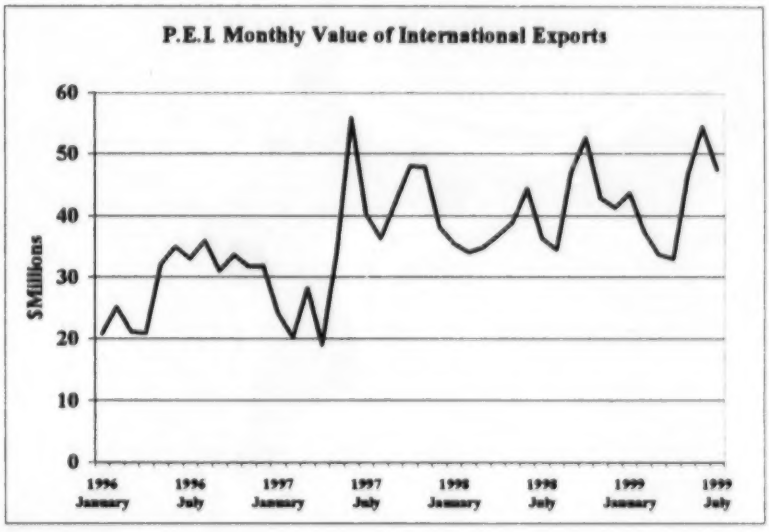

Figure 10

Manufacturing Activity

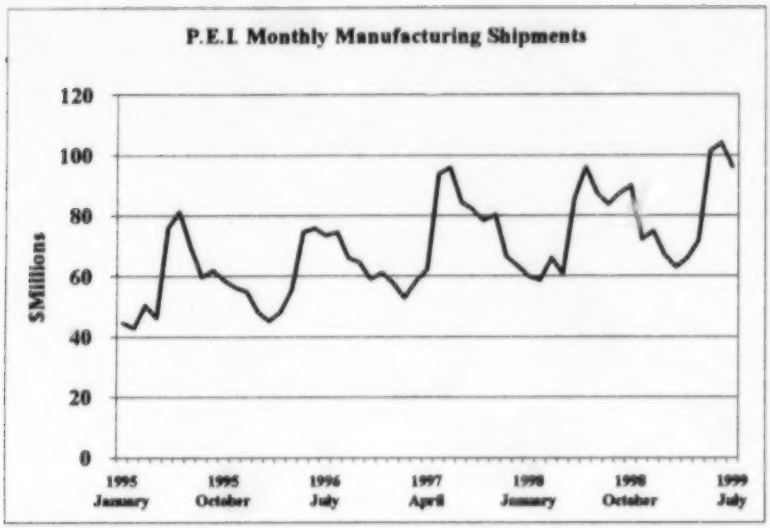

Figure 11

Island manufacturing shipments continue to experience strong growth through 1999. The value of Island manufacturing shipments for the first seven months of 1999 totalled $569.4 million, for an increase of 10.6 per cent compared with the first seven months of 1998. The value of fish processing is showing the largest increase in shipping value at $23.7 million (31.8 per cent) during January to July 1999 over the same period of 1998. Total food processing shipments on P.E.I. grew 10.1 per cent. Manufacturing shipment growth in wood products and transportation equipment trailed fish products with growth of $13.5 million (67.2 per cent) and $11.8 million (24.3 per cent) respectively. The monthly values of manufacturing shipments since 1995 are shown in Figure 11 which also illustrates the large seasonal variability of the Island manufacturing sector.

Construction

The construction industry has experienced an upswing in activity during 1999. According to Statistics Canada's Employment Earning and Hours, employment in the construction industry grew 42 per cent during the first six months of 1999. Total building permits issued in the first eight months of 1999 totalled $86.0 million, an increase of 24.2 per cent over the same period in 1998. The value of building permits has accelerated this year due largely to non-residential building permits being up 22.7 per cent over the same period of 1998. Non-residential construction permits were buoyed by capital construction in Island schools, including construction of new schools in West Royalty and Fort Augustus, and renovations to Bluefield Senior High. Renovations are almost complete for the new head quarters of the Charlottetown City police. Construction of a new Home Hardware store and office complex in Stratford are underway. The fall and winter construction activity will continue with construction of an accommodations complex at Crowbush, a new Atlantic Super Store, FutureShop and Marks Work Warehouse stores in Charlottetown. In addition, construction of an interpretive centre and 40 room lodge will begin at Greenwich National Park.

The value of residential building permits are up by 25.4 per cent over the first eight months of 1998. The advances in residential building permits indicate strength in residential housing as construction continues to building on the strong performance during early 1999. Figure 12 shows quarterly housing starts as reported by Canada Mortgage Housing Corporation (CMHC) totalling 474, up 29.9 per cent during the first three quarters of 1999. Urban housing starts, accounting for 70 per cent of the housing starts, show single home and row complexes fuelling the increase.

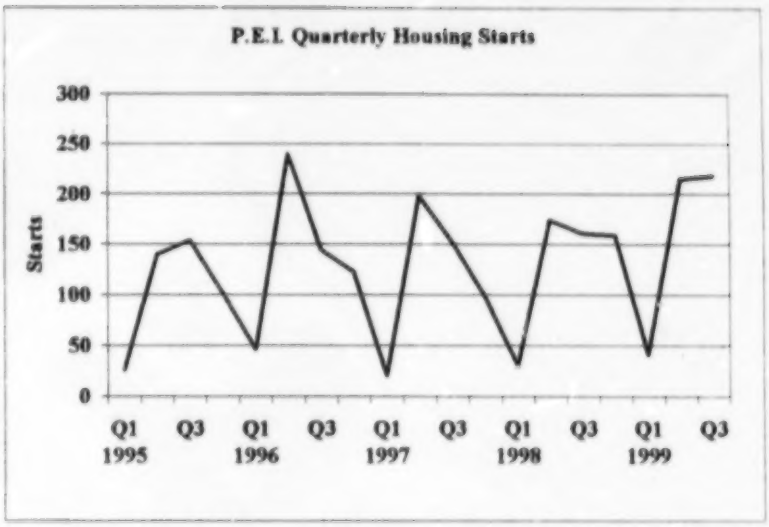

Figure 12

Summary and Conclusions

Available statistics indicate that the Island economy is growing at a moderate pace through 1999. Growth is broadly based across the sectors of the economy. Private sector forecasts show the Island economy growing between 1.7 and 2.6 per cent during 1999. Private sector GDP growth forecasts are supported by manufacturing growth of over 10 per cent, a strengthening Island construction sector, healthy farming fishing and forestry sectors and growing consumer spending. Preliminary results from the tourism industry indicate another good year for tourist operators with revenues exceeding $300 million. Employment growth was however modest during the first ten months of 1999 and unemployment has trended upward in contrast to the national trend. Growth of the Island population is positive and continued growth on P.E.I. is expected as the North American market follows a path of sustained economic expansion during 1999.

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